



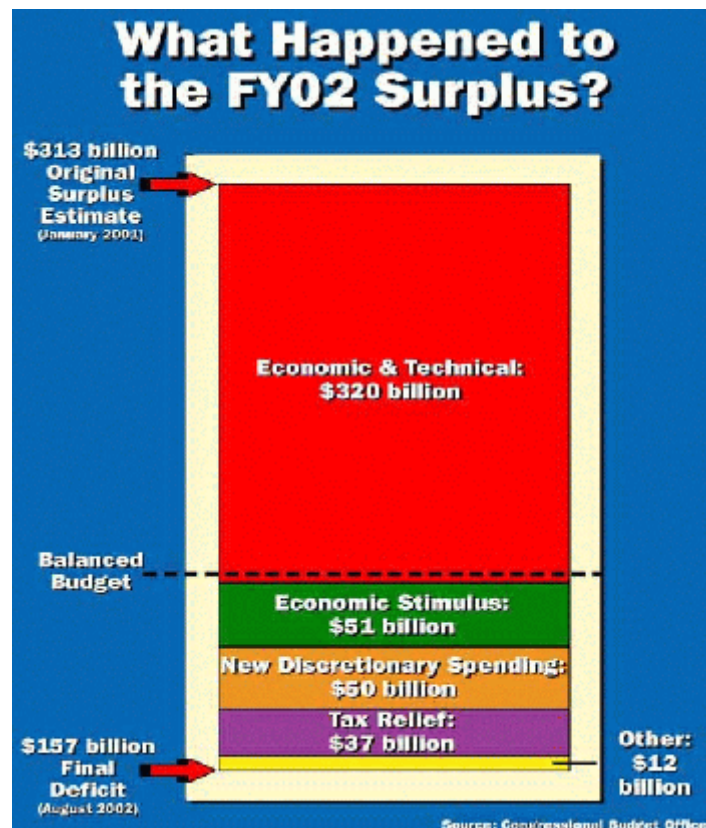
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### Correcting the Democrats' Math

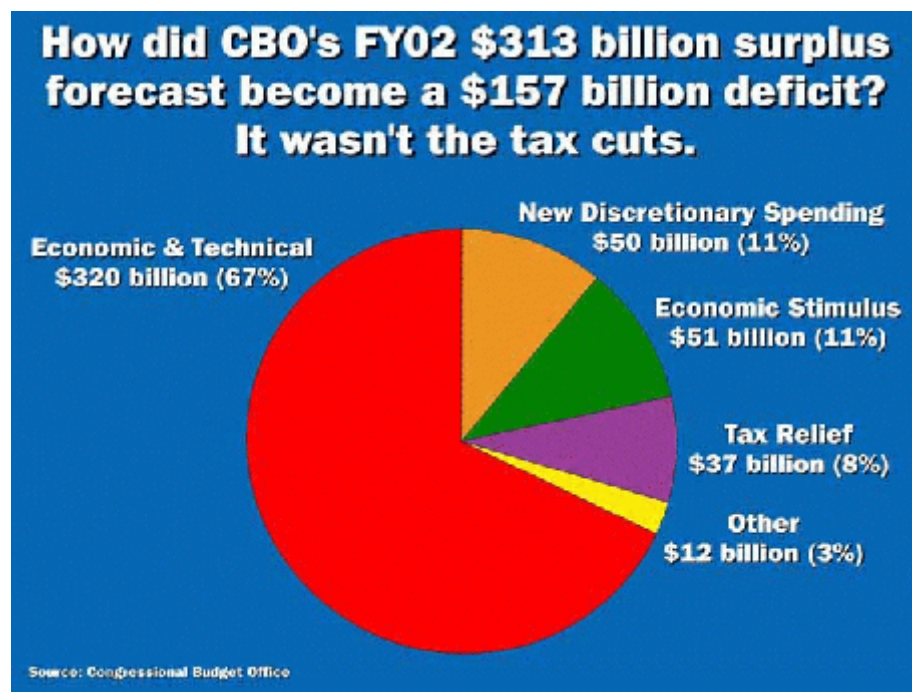
## Numbers Show Tax Relief Didn't Cause Deficit

With the 2002 fiscal year over, it is worthwhile to review the Democrats' repeated claim that last year's tax cuts were the "biggest" reason the projected surplus has, at least for the next few years, turned into a deficit.

That claim is inaccurate, says the Congressional Budget Office. The chart below shows how the projected FY02 \$313 billion surplus turned into a \$157 billion deficit. The number one cause: The economic and technical adjustments related to the recession and slow recovery. The second largest factor was the compromise "economic stimulus" package adopted last spring. Third, the dramatic growth of discretionary spending last year – much of it related to September 11. And finally, coming in *fourth*, is the impact of the Bush tax relief package enacted in June of 2001. *Fourth*, not first.



Here's the same analysis with percentages – economic and technical adjustments: 67 percent of the change; new discretionary spending: 11 percent; the economic stimulus package: 11 percent; and the Bush tax relief bill: 8 percent of the adjustment.



## 10-Year Sleight-of-Hand

So how do Senate Democrats argue that the tax cuts, more than all other impacts, have eliminated the surplus? For example, Senator Conrad came to the Senate floor and made the following statement:

The facts are, the overwhelming reason for the disappearance of the surplus is the tax cuts the President proposed and pushed through Congress. The second biggest reason for the disappearance of the surplus is his administration's overestimates of revenue apart from the tax cuts. The third biggest reason is spending on defense and homeland security, every penny of which the President supported. And the smallest reason for the disappearance of the surplus is the economic downturn [*Congressional Record*, 9/19/02].

It is important to recognize the sleight-of-hand. Democrats focus on deficits that are here now, but criticize tax relief using 10-year numbers. The problem with their math is that CBO does not project a deficit over the next 10 years. Rather, it estimates we will have a \$336 billion surplus over that period. To make their arguments, Democrats must resort to using uncertain 10-year estimates to criticize the actual deficits we're suffering from today.

Moreover, when one looks at the actual CBO report (attached on the back), it is clear that the tax relief is *not* the biggest reason the deficit has declined over the next decade. The Bush tax cut was estimated to reduce federal revenues by \$1.3 trillion over that period. Meanwhile, the surplus estimate has dropped from \$5.6 trillion last year to \$336 billion currently, a reduction of \$5.3 trillion. (These are CBO estimates of revenue and spending, not OMB estimates, as Senator Conrad charges.)

On its face, the Democrat claim that a \$1.3-trillion tax cut caused a \$5.3-trillion decline in the surplus is absurd. The CBO report makes clear the largest loss to the budget over the past two years has been the poor economy and associated technical adjustments. Over 10 years, economic and technical adjustments have resulted in \$2.3 trillion in lower revenues and higher spending than the CBO estimated in 2001, nearly twice as much as the tax relief.

New spending also affected the surplus. Since January of 2001, Congress has increased discretionary spending by \$793 billion. The Economic Stimulus Package, Farm Bill, and other new spending items raised 10-year mandatory spending by another \$120 billion, for a total of \$913 billion in new spending in just two years.

Between the two – new spending and economic downturn – last year’s surplus was reduced by \$3.2 trillion for reasons unrelated to the tax relief. (Of course, this session isn’t over just yet. Still on the list of “might do’s” are higher spending for Medicare providers [\$40-\$50 billion], drought relief [\$2-\$6 billion], an extension of Unemployment Insurance [\$9-\$18 billion], and higher benefits for disabled veterans [\$18-\$53 billion]. Earlier the Senate failed to adopt a prescription drug benefit for Medicare [\$350-\$800 billion]. Adding all those up shows that total new federal spending considered since the passage of tax relief easily eclipses the Bush tax cuts.)

Democrats, too, know that focusing on 10-year budget estimates is a risky business. They’ve admitted as much in the past, as did Senator Conrad last year, saying they “tried to warn our colleagues repeatedly that it was unlikely to come true; that you could not trust a 10-year forecast, that it was filled with risks, that it was filled with uncertainty, and we ought to be cautious” [*Congressional Record*, 11/13/01].

The same caveat applies to the 10-year forecasts of the Bush tax relief’s impact on revenues. The \$1.3-trillion figure provided by the Joint Committee on Taxation is, after all, an estimate. Yet even as Democrats furrow their brows over the perils of long-term budgeting, they’ve chosen to use 10-year and – more amusingly – 20-year estimates to criticize the Bush tax relief.

In response to former Vice President Al Gore’s speech on the economy last week, the *Washington Post* pointed out that, “to blame the weak American economy on Mr. Bush is nonsense” [10/05/02]. The same can be said for Democrat charges that a \$1.3 trillion tax cut eliminated \$5.3 trillion in surpluses. It doesn’t make sense. But then, sometimes, neither do our friends on the other side of the aisle.

Written by Brian Reardon, 224-2946  
Attachment: CBO table